ANNUAL REPORT
OF THE
LOCAL GOVERNMENT
FINANCE STUDY COMMISSION

Indiana Legislative Services Agency
200 W. Washington St., Suite 301
Indianapolis, Indiana   46204-2789

November, 1999

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1999

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Local Government Finance Study Commission

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Ross Hooten
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A copy of this report is available on the Internet. Reports, minutes, and notices are organized by committee. This report and other documents for this Commission can be accessed from the General Assembly Homepage at http://www.state.in.us/legislative/.

I. STATUTORY DIRECTIVE

The Local Government Finance Study Commission was established by P.L.242-1997 to review laws affecting local government finance in Indiana. The Commission was first established in 1992, and it was re-established in 1994 and then again in 1997. It is set to expire on November 2, 2001.

P.L.242-1997 charged the Commission with the following duties:

(1) Conducting a study of matters concerning local government, including the following:

(A) Ways to simplify and recodify statutory property tax controls.

(B) Revenue sources and uses of the revenue.

(C) The impact of property tax controls on economic development.

(D) Alternative sources of revenue that are not derived from property taxes.

(E) Substantive changes to the Barrett Law.

(2) Conducting a special inquiry into the financial organization of local government.

The Commission may also study other topics assigned by the Legislative Council or as directed by the chairman of the Commission. During the 1999 interim, the Legislative Council did not assign any specific topics to the Commission for study.

The Commission determined that it would explore the following questions during the 1999 interim:

(1) Has the 1974 property tax freeze served its purpose?

(2) Should local government have fiscal home rule?

II. INTRODUCTION AND REASONS FOR STUDY

The Local Government Finance Study Commission met to carry out the Commission's responsibilities under P.L. 242-1997.

III. SUMMARY OF WORK PROGRAM

Chairman Bailey presided over six meetings during the 1999 interim.

1. The first meeting was held in Indianapolis on August 18, 1999. The purpose of the meeting was to develop a work plan for the interim.

2. The second meeting was held in South Bend on September 14, 1999. This meeting was held during the Indiana Association of Cities and Towns (IACT) annual meeting.

3. The third meeting was held in Bloomington on September 22, 1999. This meeting was held during the Association of Indiana Counties (AIC) annual conference.

4. The fourth meeting was held in Indianapolis on October 7, 1999.

5. The fifth meeting was held in Indianapolis on October 20, 1999.

6. The sixth and final meeting was held in Indianapolis on October 27, 1999. The Commission adopted an information report at this meeting.

IV. SUMMARY OF TESTIMONY

A. Property Tax Controls

Testimony revealed that many civil taxing units, where officials tried to keep taxes low, suffered as a result of the additional property tax limits imposed in 1984 because their levies had been frozen at such a low level in 1973. As a result of the restrictions placed upon property tax levies, civil taxing units are struggling to provide desired services and to meet necessary expenses such as employee health care costs.

The rules for distribution of local option income taxes penalize taxing units that set their property tax levy below the maximum permissible levy because a taxing unit’s income tax share is based on the actual levy.

Current fiscal controls are strangling small communities and growing communities don’t have the flexibility to keep up with local demands.

B. Fiscal Home Rule

1. The Problem

According to the testimony, fiscal home rule has been a discussion topic for several years. HB 1549, dealing with fiscal home rule was introduced in 1997.

Local officials need the tools, such as squad cars and fire engines, with which to do their jobs. A number of expenditures are expected to increase and therefore squeeze property tax levies in the coming years. These include the early release of prisoners from the Department of Corrections to the counties, employee health insurance costs, state mandates, and retaining police officers currently paid under short term federal programs. Also mentioned were expenditures for roads, animal control, court house repair, judicial system funding and bridges.

Local government is strangled by the demands of its citizens and the General Assembly. Local government revenue has remained static and as a result, many local governments are broke. Local officials are looking for more tools, not more taxes. High property taxes are an economic development hindrance.

Although the General Assembly gave local government the authority to enact local option taxes, cities and towns cannot enact most taxes without either the county's approval or by teaming up with other municipalities. There are many specialized local taxes and few uniform taxes, giving the General Assembly control over these matters. A common fear is that fiscal home rule would cause taxes to rise but some communities have used the County Option Income Tax to reduce and level off property taxes.

2. Fiscal Home Rule as the Solution

The one size fits all view of current revenue raising laws is flawed because one size does not fit all communities. Local fiscal home rule would enable a community to best meet its economic climate and serve its citizens. All communities should have fiscal plans that make projections for several years out, but the plans must be flexible.

The flexibility afforded by local fiscal home rule would help the economy by allowing local governments to create competitive tax structures. As an example, local fiscal home rule would allow agricultural counties to devise tax systems that do not burden farmers. Taxes would not be increased more than necessary because local officials do not want to put their communities at an economic disadvantage.

Local officials should be trusted to make local fiscal decisions. Fiscal home rule is important at the local level because the public could offer direct input and because it could save taxpayers money by reducing the time and cost to implement revenue programs.

Some local projects carry with them many administrative costs. Fiscal home rule would allow local governments to avoid many of the costs associated with some projects by reducing or eliminating the lobbying expenses, attorney fees, and litigation expenses associated with the legislation necessary to finance the projects.

Normal, Illinois was offered as an example of a fiscal home rule community that is very stable. It is a pay-as-you-go community that makes use of the state income tax and a sales tax leaving the property tax extremely low.

Local officials have their work cut out for them in promoting the idea of fiscal home rule. The idea of fiscal home rule could be sold to the citizens and the local governing bodies. If the citizens were opposed to the idea then the local units simply wouldn't do it. There was testimony in favor of allowing fiscal home rule in a number of pilot communities.

It was also noted that the amount of local government experience among members of the General Assembly is diminishing. Officials are urged to educate their respective representatives and senators about the challenges facing local officials.

3. Tourism and Fiscal Home Rule

The degree of State-owned property can affect local taxes and resources. State-owned property is removed from the property tax rolls, but local government must still provide services such as police and rescue when summoned. State parks constitute the biggest drain of the tax base, but their visitors are frequent users of local emergency services. At one time, there had been a request to charge one additional dollar at the gate of state parks, with the revenue going to local government.

Local tourism benefits the state. Fiscal home rule would allow units to increase their capabilities of meeting the costs of necessary projects related to tourism. The current local innkeepers tax applies to state owned properties as well as to privately owned lodging. Local food and beverage taxes could raise significant revenue from visitors to the area and would not impact local residents who do not eat out. Food and beverage taxes and local sales taxes could provide significant property tax relief. Also mentioned were a local gas tax and user fees.

Each community should do an economic impact study to assess the economic impact of the state park visitors on the community at large.

C. Personal Property Credit Reporting

According to testimony there seems to be a problem with some of the reporting dates associated with the state's newly enacted property tax credit for personal property up to $12,500 of assessed value. County auditors and assessors must certify the assessed value of the property eligible for the credit to the State Tax Board by December 1. However, the assessment date for mobile homes that are not assessed as real property is January 15 of the year in which the tax is payable.

In response to this problem, a meeting was held between representatives from the Association of Indiana Counties, the County Assessors Association, the County Treasurers Association, the State Tax Board, the Auditor of State, and the Legislative Services Agency. State officials agreed to allow counties to file a supplemental report with the State Tax Board after mobile home assessments are completed. They also agreed that the state credit resulting from the supplemental reports would be equally distributed in the June and December settlements from the Auditor of State as long as the reports are received in time to include them. The participants decided that legislation was unnecessary at this point. The agreement to allow supplemental reports is subject to the approval of the Property Tax Replacement Board.

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Commission made no findings of fact or recommendations during the 1999 interim.

W I T N E S S L I S T

Mr. David Bottorff, Association of Indiana Counties
Mr. Matt Brase, Indiana Association of Cities and Towns
Ms. Sharon Clark, Hamilton County Commissioner
Mr. Tom Conley, Indiana Department of Revenue
Ms. Janie Craig-Chenault, Lawrence County Commissioner
Mr. Frank Cummings, Jackson County Council Member
Mr. Thomas DeGiulio, Munster Town Manager
Mr. Dick Dodge, Steuben County Council Member
Mr. Thomas "Buddy" Downs, Ice Miller Donadio & Ryan, Counsel to the AIC
Mr. Rich Eckerle, Dubois County Council Member
Mr. Jeff Ellington, Monroe County Council Member
Ms. Tonya Galbraith, Indiana Association of Cities and Towns
Mayor Thomas Galligan, Jeffersonville
Mayor Jack Greenlee, Plymouth
Mr. Michael Griffin, Highland Clerk-Treasurer
Mr. Bill Haan, Indiana Association of County Commissioners
Mayor David Heath, Lafayette
Mayor Paul Helmke, Ft. Wayne
Mayor Charles Henderson, Greenwood
Mr. John McGrady, Henry County Commissioner.
Mr. Gary Malone, H.J. Umbaugh & Associates, LLP
Mr. Kenneth Miller, Commissioner of the Indiana Department of Revenue
Mr. Brian O'Neil, Monroe County Commissioner
Mr. John Riemke, Albion & Avilla Town Manager
Mr. Bill Sipes, Greene County Commissioner
Mr. Doug Stamper, Scott County Council Member
Mr. Mark Stoops, Monroe County Council Member
Mayor Mary Walters, Monticello
Mr. Don Walton, Putnam County Commissioner